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SUPREME COURT, U.S.

In the Supreme Court of the United States

QUANTA COMPUTER, INC., ET AL.,

PETITIONERS,

v.

LG ELECTRONICS, INC.,

RESPONDENT.

ON A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT

BRIEF OF *AMICUS CURIAE* MOTOROLA, INC. IN SUPPORT OF PETITIONERS

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WILSON-EPES PRINTING CO., INC. – (202) 789-0096 – WASHINGTON, D. C. 20002

QUESTION PRESENTED

Whether the Federal Circuit erred by holding, in conflict with decisions of this Court and other courts of appeals, that respondent's patent rights were not exhausted by its license agreement with Intel Corporation, and Intel's subsequent sale of product under the license to petitioners.

RULE 29.6 STATEMENT

Motorola, Inc. is a public corporation, incorporated in Delaware. Motorola has no parent corporation, and no publicly held corporation owns 10% or more of its stock.

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STATEMENT OF INTEREST OF *AMICUS CURIAE*[1]

Motorola, Inc. ("Motorola") is a Fortune 100 company that designs, manufactures and sells a variety of telecommunications, electronic, and other equipment, products and services. Motorola owns thousands of U.S. patents and has entered into many different types of agreements relating to its patent portfolio, or portions thereof, including license agreements, covenants not to sue, and releases. Motorola also has rights, of varying degree, to hundreds if not thousands of third-party patents pursuant to various agreements, including license agreements, covenants not to sue, and releases.

Patent license agreements, covenants not to sue, and releases are entered into for a variety of different fact-specific reasons, and the legal rights granted or conveyed by each type of agreement are, and are intended to be, different. For example, licenses often are used when resolving assertions of infringement of a patent or patents. Covenants not to sue, on the other hand, often are used when business units, product lines, or divisions are sold, acquired, or spun off into separate stand-alone entities. The distinction between, and legal effect of, licenses and covenants not to sue has been

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[1] The parties have filed statements with the Court consenting to the filing of *amicus curiae* briefs. No counsel for a party authored this brief in whole or in part, and no counsel or party made a monetary contribution intended to fund the preparation or submission of this brief. No person other than *amicus curiae*, its members, or its counsel made a monetary contribution to its preparation or submission.

recognized by the Federal Circuit and commentators. *See, e.g., Jacobs v. Nintendo of America, Inc.*, 370 F.3d 1097, 1101 (Fed. Cir. 2004) ("If all that Jacobs intended to do through the settlement agreement was to free Analog of its liability for infringement, . . . the covenant not to sue would have been fully sufficient to serve that purpose. Paragraph 3, however, goes much further by granting Analog an affirmative right to engage in the manufacture and sale . . .."); Joseph Yang, *Advanced Patent Licensing: What You Need to Know Before Licensing Your Patent 2007, Joint Venture And Consulting Agreements*, Practising Law Institute Patents, Copyrights, Trademarks, and Literary Property Course Handbook Series, May-June 2007, at 85-87 ("In general there are four types of IP grants: (a) an assignment (e.g., conveyance of ownership); (b) an exclusive license; (c) a nonexclusive license; and (d) a covenant not to sue. Each of these grant types is characterized (indeed, defined) by a certain set of attributes."); Herbert A. Stern, *Intellectual Property Licensing in Today's "E-conomy", Software Licensing: Custom Software Licensing From the Licensee's Perspective*, ALI-ABA Course of Study, May 29-30, 2003, at 34-35 ("Frequently, the developer objects to such a broad grant of rights (a license), and is willing to grant only a covenant not to sue, which is less desirable to your client because the grant is personal, and is not binding on successors of the developer or enforceable by assignees of your client."); James H. Davis et al., *Going International: Fundamentals of International Business Transactions, The Technology License Agreement*, ALI-ABA Course of Study, July 8, 1996, at 170 ("A nonexclusive license simply is a promise by the patent owner not to sue the licensee.

However, a nonexclusive license may again be distinguished from a covenant not to sue — a personal promise which may not run with later transfers of the patent.").

Motorola also purchases, from licensed suppliers, components for assembly into Motorola equipment and products. Assertions are often made against Motorola that the use of such components with a telecommunication network infringes upon the patent rights of others. Therefore, Motorola will benefit from the Court's clarification of the patent exhaustion doctrine in this case.

SUMMARY OF ARGUMENT

Under the Court's precedent, Intel's licensed sales of microprocessors and chipsets exhausted LGE's patent rights. The scope of the question presented is narrowly focused to determine the exhaustion effect of Intel's post-license sales under the LGE-Intel license. The scope of the question presented does not encompass other types of agreements that may, or may not, grant or convey patent rights, such as covenants not to sue and releases. Thus, the Court should limit its holding in this case only to the exhaustion effect under a license.

ARGUMENT

I. Motorola Supports Petitioners' Positions With Respect To The Question Presented.

In the instant action, LGE granted Intel a license and a release. The question presented, however, is limited to sales under the LGE-Intel *license* and whether sales made *subsequent to* the license exhausted LGE's patent rights:

> Whether the Federal Circuit erred by holding, in conflict with decisions of this Court and other courts of appeals, that respondent's patent rights were not exhausted by its license agreement with Intel Corporation, and Intel's subsequent sale of product under the license to petitioners.

Petitioner's Opening Br. at i. Consequently, given the limited scope of the question presented, it would be prudent for the Court to defer any decision on the patent exhaustion effect, if any, of other types of agreements until the issue is squarely presented.

With respect to the license, Intel's sale of microprocessors and chipsets pursuant to the LGE-Intel license exhausted LGE's patent rights. Petitioners correctly rely on *United States v. Univis Lens Co.*, 316 U.S. 241 (1942), for the proposition that Intel's sale of products that embody essential features of LGE's asserted patents and have no other substantial noninfringing use but to be combined with other articles, the combination of which infringes LGE's patents, exhausts the patents. Petitioners' Opening Br. at 23-25, 33-35.

Similarly, the Court's holding in *Mitchell v. Hawley*, 83 U.S. (16 Wall.) 544 (1872), was based on a lack of authority to sell patented machines, not language purporting to limit the use of the machines. Petitioners' Opening Br. at 17-19; *Mitchell*, 83 U.S. at 551 ("[The seller] was only a licensee and never had any power to sell a machine so as to withdraw it indefinitely from the operation of the franchise secured by the patent."). And, consequently, *Mitchell* is not contrary to the Court's holding in cases such as

Adams v. Burke, 84 U.S. (17 Wall.) 453, 456-57 (1873) ("[T]herefore, . . . we hold that in the class of machines or implements we have described, when they are once lawfully made and sold, there is no restriction on their *use* to be implied for the benefit of the patentee or his assignees or licensees."), that stand for the well-accepted proposition that

> the purpose of the patent law is fulfilled with respect to any particular article when the patentee has received his reward for the use of his invention by the sale of the article, and that once that purpose is realized the patent law affords no basis for restraining the use and enjoyment of the thing sold.

Univis Lens, 316 U.S. at 251 (citing cases). In other words, under the Court's precedent once the first sale occurs a patentee no longer has any patent rights against the article. For this reason, when patent exhaustion applies the owner of the purchased item does not need a license, implied or otherwise, to use the purchased item.

LGE's attempt to contract around the patent exhaustion doctrine with a license to Intel purportedly limiting the use rights conveyed to Intel's customers is an impermissible attempt to use the patent laws to extract a second payment from the vertical distribution chain. Petitioners' Opening Br. at 46-54; *see also Motion Picture Patents Co. v. Universal Film Mfg. Co.*, 243 U.S. 502, 516 (1917) ("[I]t is not competent for the owner of a patent . . . to send its machines forth into the channels of trade of the country subject to conditions as to use or royalty to be paid, to be imposed thereafter at the discretion

of such patent owner."). Consequently, if the Federal Circuit's line of precedent that culminated in the decision below is allowed to stand, the patentee will — by design — be allowed to extract a royalty at various and distinct vertical stages in the distribution chain. This type of inefficient "double-dipping" is what the Court's exhaustion doctrine prohibits.

II. The Court Should Not Decide What Patent Exhaustion Effect, If Any, The Release LGE Granted To Intel As Part Of The License Agreement Has On Products Intel Sold Pre-Release.

As stated above, the LGE-Intel agreement at issue in this case granted a prospective license and a retroactive release to Intel. Although the fact of an LGE release to Intel is clear, due to a protective order the exact terms of the release are not. *See* Respondent's Cert Opp'n Br., 2007 WL 760215, *6 n.3 (Mar. 9, 2007) (quoting CAFC JA3621 ("'Whereas Intel desires to acquire a license and a release . . .'"; "'Whereas LGE is willing to grant a license and a release under the Patent License . . .'")).

The existence of the Intel release is consistent with LGE's assertion of infringement against Intel prior to the consummation of the LGE-Intel agreement. *See, e.g.*, Petitioners' Opening Br. at 8. As a result, it is reasonable to infer that Intel sold microprocessors and chipsets prior to the date it entered into the licensing arrangement with LGE. Moreover, the record demonstrates that Petitioners purchased some portion of the Intel microprocessors and chipsets they combined with non-Intel products prior to the consummation of the LGE-Intel license.

See, e.g., LG Electronics, Inc. v. Asustek Computer, Inc., 248 F. Supp. 2d 912, 914 (N.D. Cal. 2003) ("[S]everal days prior to entering into the LGE-Intel License, Intel sent a letter to all its customers, including Defendants, informing them that its license with LGE 'does not extend, expressly or by implication to any product that you may make by combining an Intel product with any non-Intel product.'"); *accord* Petitioners' Opening Br. at 9 ("Pursuant to its agreement with LGE, and after many of the sales at issue here had already occurred, Intel sent the demanded 'notice' letter to Quanta."). Consequently, at least some portion of the microprocessors and chipsets placed in the accused products in this case were purchased from Intel when Intel did not have authorization under LGE's patents — at least at the time the sales were made — to sell the microprocessors and chipsets.

This Court should not decide the patent exhaustion effect, if any, of the release contained in the LGE-Intel license because the issue is not fairly included in the question presented. *Yee v. Escondido*, 503 U.S. 519, 535 (1992) ("[W]e ordinarily do not consider questions outside those presented in the petition for certiorari."); Supreme Court Rule 14.1(a) ("Only the questions set out in the petition, or fairly included therein, will be considered by the Court.").

Without additional facts, it is unclear whether Intel's pre-license sales to Petitioners were unauthorized and if any such sales would exhaust LGE's patent rights. The record is not sufficiently developed to ascertain all of the facts necessary to render a decision on what, if any, effect LGE's

release to Intel had on Intel's pre-license sales of microprocessors and chipsets to Petitioners. Appropriately, these pre-license sales are not at issue in this appeal.

Similarly, the question presented also does not encompass other types of agreements that might grant or convey patent rights, such as a covenant not to sue. There are significant differences between a license, such as the one in this case, and a covenant not to sue. *See, e.g., Hilgraeve Corp. v. Symantec Corp.*, 265 F.3d 1336, 1346 (Fed. Cir. 2001) (finding covenant not to sue personal in nature, *i.e.*, non-transferable). And, moreover, to our knowledge, the Court has not decided what impact a release or covenant not to sue may have, if any, on the exhaustion of a patent for items potentially covered by a release or covenant not to sue. Rather, the Court's precedent involved license agreements not covenants not to sue or releases. *See Univis Lens*, 316 U.S. 241 (reviewing license); *Ethyl Gasoline Corp. v. United States*, 309 U.S. 436 (1940) (reviewing license); *General Talking Pictures Corp. v. Western Electric Co.*, 304 U.S. 175 (1938) (reviewing license); *United States v. General Electric Co.*, 272 U.S. 476 (1926) (reviewing license); *Boston Store v. American Graphophone Co.*, 246 U.S. 8 (1918) (reviewing license); *Motion Picture Patents*, 243 U.S. 502 (reviewing license); *Straus v. Victor Talking Machine Co.*, 243 U.S. 490 (1917) (reviewing license); *Bauer v. O'Donnell*, 229 U.S. 1 (1913) (reviewing license); *Henry v. A.B. Dick Co.*, 224 U.S. 1 (1912) (reviewing license); *Bement v. National Harrow Co.*, 186 U.S. 70 (1902) (reviewing license); *Adams*, 84 U.S. (17 Wall.) 453 (reviewing license); *Mitchell*, 83 U.S. (16 Wall.) 544 (reviewing license); *Bloomer v.*

Millinger, 68 U.S. (1 Wall.) 340 (1864) (reviewing license); *Bloomer v. McQewan*, 55 U.S. (14 How.) 539 (1853) (reviewing license); *see also Keeler v. Standard Folding Bed Co.*, 157 U.S. 659 (1895) (reviewing partial assignment); *Hobbie v. Jennison*, 149 U.S. 355 (1893) (reviewing partial assignment). Thus, Motorola respectfully submits that given the narrowness of the question presented and the lack of a developed record below regarding the release, and distinctions with respect to covenants not to sue, the Court should leave the question of what impact other types of agreements may or may not have on patent exhaustion for another day.

CONCLUSION

For the foregoing reasons, the Court should reverse the judgment of the Court of Appeals for the Federal Circuit, and in so doing, the Court should limit its holding to products sold pursuant to a license agreement.

Respectfully submitted,

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